

ARIZONA
MONTHLY FISCAL HIGHLIGHTS
February 2004

February General Fund revenues were \$315.6 million. Collections were \$9.2 million above the original FY 2004 forecast for the month, bringing the total forecast variance after 8 months to \$139.6 million. Year-to-date collections of \$4.1 billion are a total of 10.8% above last year. As we have noted in past months, adjusting for tax amnesty revenues, the one-time federal cash assistance grant, judicial enhancement collections and Urban Revenue Sharing funds provides a more accurate picture of economic growth. After making these adjustments, year-to-date collections are up 6.3% for the first 8 months of the fiscal year compared to last year.

We will continue to measure individual revenue category collections against the original budget forecast until the Legislature enacts a new budget. The JLBC FY 2005 Budget has already incorporated most of the year-to-date surplus through the first 6 months in the revised FY 2004 estimates. The new February collections are approximately \$3.3 million above these revised estimates. Combined with the January variance, we are a total of \$16.7 million above the JLBC Budget Book forecast through February.

This report also includes a summary of the March JLBC meeting.

General Fund Revenues
Compared to Original and Revised FY 2004 Forecasts and FY 2003 Collections
(\$ in Millions)

	<u>FY 2004 Collections</u>	<u>Difference From 6/03 Forecast</u> ^{1/}	<u>Difference From 1/04 Forecast</u> ^{2/}	<u>Difference from FY 2003</u> ^{3/}
February	\$ 315.6	\$ 9.2	\$ 3.3	\$ 8.6
Year-to-Date	\$4,129.9	\$139.6 ^{4/}	\$ 16.7 ^{4/}	\$251.2

^{1/} Original FY 2004 budget forecast (June 2003).

^{2/} Revised FY 2004 forecast (January 2004).

^{3/} Excludes federal cash assistance grant, URS, judicial enhancement and amnesty deposit.

^{4/} By the end of the fiscal year, amnesty may generate an additional \$22 million above forecast.

Sales Tax revenue in February increased by 8.0% (based on preliminary numbers), bringing the year-to-date growth rate up to 7.4%. Assuming the final February numbers are equal to the preliminary numbers, sales tax collections are now \$95.0 million above the budgeted forecast for the year. As noted last month, the Department of Revenue implemented its new computer system in January. This transition has delayed final reconciliation of February receipts. The figures shown are based on the best data available at print time.

Individual Income Tax collections in February were down (1.7)% compared to last year. This amount is \$(3.2) million below the budgeted forecast for the month. Year-to-date net collections are up by 0.8% over last year, but are \$(24.7) million below the forecast. February's withholding tax collections were up by 6.9% compared to last year. Estimated and final payments were 21.0% over last year, however this only represents an increase of \$2.1 million since February is a small collection month for payments. Refunds were 12.1% over last year, representing an increase in refunds of \$12.4 million. This increase in refunds is at least partially due to the increase in tax returns processed, as more filers take advantage

of electronic income tax filing. Refunds have dropped substantially so far in March compared to last year.

Corporate Income Tax collections declined in February. Net revenue was almost \$(4.0) million below February of last year. Collections for the month were \$(1.2) million below the budgeted forecast, bringing the year-to-date variance down slightly to \$48.6 million above the forecast. A relatively high level of refunds reduced collections. Corporate income tax revenue for the fiscal year-to-date, however, is running 44.9% ahead of last year's results. Collections for the first half of last fiscal year were exceptionally low, and it is not anticipated that this growth rate will continue for the remainder of the current fiscal year.

Recent Economic Indicators: The **U.S. Index of Leading Economic Indicators** held steady in February, following solid gains in each of the previous four months. Six of the ten components increased last month, with vendor performance, stock prices, and manufacturers' new orders among the positive factors. The Conference Board's **U.S. Consumer Confidence Index**, which soared in January, dipped to 87.3 in

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February. The expectations component and the current conditions assessment were significantly less bullish than the previous month.

The high-technology sector endured seasonal setbacks. **U.S. Semiconductor Billings** (3-month moving average) dropped (3.2)% to \$2.936 billion in January. They remained 14.8% above the reported level from a year ago.

The **U.S. Consumer Price Index** increased a seasonally adjusted 0.3% in February. Gasoline costs continued to be the primary culprit, rising 2.5% during the month. The “core” CPI, excluding food and energy prices, increased just 1.2% from a year ago.

The Arizona Department of Economic Security completed its annual benchmarking process and released revised employment statistics for the last two years. After remaining virtually flat in 2002, the state’s job count increased 1.1% in 2003. Preliminary estimates indicated 2004 was off to a better start. **Non-farm employment** increased 2.2% on a year-over-year basis in February. More than 24,000 positions were added last month, with construction, finance, and business services among the stronger categories. Meanwhile, the **Arizona unemployment rate** inched up to 5.3% as labor force growth outstripped the number of jobs added.

After jumping by 1.1% in December, the **Arizona Index of Leading Economic Indicators** dropped (0.9)% in January.

The largest negative influence was the value of residential building permits, which fell from an unusually strong December total. The **Arizona Business Conditions Index** (BCI), derived from a survey of supply chain managers throughout the state, slipped to 67.5 in February. The employment and prices components contributed much of the support to the BCI, which remained very near its 20-year high.

Statistics from state government programs reflected positive trends. AHCCCS caseloads remained below forecasted levels and dropped in February for the second consecutive month. The number of acute-care **AHCCCS clients** declined 1.5% during the last three months but remained 4.1% above the level from a year ago. The **Proposition 204 caseload** edged down 0.2% during the most recent three-month period, but the number of clients remained 15.1% higher than a year ago.

The **number of TANF recipients** (3-month average) declined to 125,041 in January. While the caseload was 3.0% above last year’s level, it remained (1.0)% below the forecast. Average payments per client are 5.5% above the forecast for the year to date.

From December through February, the **Department of Corrections’ inmate population** grew by an average of 68 inmates per month. The average growth rate was below the budgeted rate of 118 net new inmates per month.

RECENT ECONOMIC INDICATORS

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
-Unemployment Rate	February	5.3%	0.1%	(0.6)%
-Jobs	February	2,329 million	1.1%	2.2%
-Contracting Tax Receipts (3 month average)	November-January	\$48.4 million	2.9%	11.0%
-Retail Sales Tax Receipts (3 month average)	November-January	\$138.9 million	14.6%	7.2%
-Arizona Tourism Barometer	January	99.6	3.8%	2.5%
-Leading Indicators Index	January	123.9	(0.9)%	4.1%
-Business Conditions Index	February	67.5	(1.1)%	32.9%
(>50 signifies expansion)				
-AHCCCS Recipients (3 month average)				
Regular	December-February	568,412	(1.5)%	4.1%
Proposition 204		172,664	(0.2)%	15.1%
-TANF Recipients (3 month average)	November-January	125,041	(3.2)%	3.0%
-DOC Inmate Growth (3 month average)	December-February	31,328	68 inmates	1,514 inmates
U.S.				
-Consumer Confidence Index	February	87.3	(9.4)%	34.7%
-Leading Indicators Index	February	115.1	0.0%	4.1%
-U.S. Semiconductor Billings	November-January	\$2.936 billion	(3.2)%	14.8%
(3 month moving average)				
-Consumer Price Index	December-February	185.2	0.3%	1.8%
(3 month moving average)				

State of Arizona

General Fund Revenue: Change from Previous Year and Budgeted Forecast

February, 2004

	Current Month					FY 2004 YTD (Eight Months)				
	Actual February 2004	Change From				Actual February 2004	Change from			
		February 2003		Budget Forecast			February 2003		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$254,668,000	\$18,864,573	8.0 %	\$12,129,435	5.0 %	\$2,163,098,448	\$148,760,301	7.4 %	\$94,799,720	4.6 %
Income - Individual	65,487,978	(1,159,499)	(1.7)	(3,158,924)	(4.6)	1,539,577,754	12,552,744	0.8	(24,699,771)	(1.6)
- Corporate	(2,587,099)	(3,982,552)	(285.4)	(1,195,808)	85.9	240,674,724	74,577,718	44.9	48,584,190	25.3
Property	259,181	(143,903)	(35.7)	(197,524)	(43.2)	21,305,721	3,355,677	18.7	3,389,007	18.9
Luxury	4,729,931	813,318	20.8	(805,644)	(14.6)	40,104,110	(4,789,594)	(10.7)	(4,180,490)	(9.4)
Insurance Premium	3,390,524	(2,252,359)	(39.9)	(45,794)	(1.3)	95,022,671	28,192,485	42.2	16,554,208	21.1
Estate	4,785,108	(4,098,468)	(46.1)	(786,592)	(14.1)	27,944,826	(46,580,363)	(62.5)	(16,628,774)	(37.3)
Other Taxes	44,562	(2,008,446)	(97.8)	(352,338)	(88.8)	1,831,824	(2,494,496)	(57.7)	(1,343,376)	(42.3)
Sub-Total Taxes	\$330,778,185	\$6,032,664	1.9 %	\$5,586,811	1.7 %	\$4,129,560,078	\$213,574,472	5.5 %	\$116,474,714	2.9 %
<u>Other Revenue</u>										
Lottery	2,712,200	22,800	0.8	0	0.0	27,004,500	3,794,800	16.4	0	0.0
License, Fees and Permits	1,480,687	(373,056)	(20.1)	(184,734)	(11.1)	15,493,976	(485,827)	(3.0)	1,129,719	7.9
Interest	863,204	(302,999)	(26.0)	(719,743)	(45.5)	19,643,627	8,628,909	78.3	7,050,618	56.0
Sales and Services	3,035,190	(446,883)	(12.8)	(325,475)	(9.7)	32,909,990	876,451	2.7	(1,504,714)	(4.4)
Other Miscellaneous	5,510,362	4,226,692	329.3	3,875,395	237.0	23,603,516	14,353,034	155.2	9,292,262	64.9
Disproportionate Share	0	0	0.0	0	0.0	5,625,187	5,625,187	0.0	5,625,187	0.0
Transfers and Reimbursements	1,656,396	(234,586)	(12.4)	980,406	145.0	13,800,008	8,041,662	139.7	1,325,395	10.6
BSF Transfer for Alt. Fuels	4,027	(283,967)	(98.6)	4,027	0.0	171,080	(3,248,173)	(95.0)	171,080	0.0
Sub-Total Other Revenue	15,262,066	2,608,001	20.6 %	3,629,876	31.2 %	138,251,884	37,586,043	37.3 %	23,089,547	20.0 %
TOTAL BASE REVENUE	\$346,040,251	\$8,640,665	2.6 %	\$9,216,687	2.7 %	\$4,267,811,962	\$251,160,515	6.3 %	\$139,564,261	3.4 %
<u>One-Time Revenue</u>										
Urban Revenue Sharing	(30,422,097)	5,457,824	(15.2)	0	0.0	(243,376,776)	43,662,592	(15.2)	0	0.0
Tax Amnesty	0	0	0.0	0	0.0	15,080,406	15,080,406	0.0	0	0.0
Federal Cash Assistance	0	0	0.0	0	0.0	87,234,214	87,234,214	0.0	0	0.0
Judicial Enhancement	0	0	0.0	0	0.0	4,584,725	4,584,725	0.0	0	0.0
Sub-Total Transfers In	(30,422,097)	5,457,824	(15.2)	0	0.0	(136,477,431)	150,561,937	(52.5)	0	0.0
TOTAL REVENUE	\$315,618,154	\$14,098,489	4.7 %	\$9,216,687	3.0 %	\$4,131,334,531	\$401,722,452	10.8 %	\$139,564,261	3.5 %

VP% = Percent change from comparable period in prior year

VF% = Variance from forecast

F% = Forecast percent change for the fiscal year.

R% = Average percent change from comparable period in prior year which must be attained over remaining months to realize the forecast for year.

JLBC MEETING

At its March 19th meeting, the Joint Legislative Budget Committee considered the following issues:

Review of Attorney General Expenditure Plan – The JLBC gave a favorable review to the Attorney General's (AG) intended uses of Antitrust Enforcement Revolving Fund monies, totaling \$402,000. A footnote in the General Appropriation Act requires the AG to submit the intended uses of monies from the fund in excess of \$170,500. The approved expenditure plan is as follows:

- \$272,500 for personnel costs for 6 existing employees.
- \$45,000 for Arizona's share of investigative and court costs associated with participating in multi-state antitrust cases.
- \$34,200 for an automotive report related to rack fuel prices for the Phoenix and Tucson petroleum pipeline terminals and dealer tank wagon prices for Phoenix and Tucson.
- \$50,300 for operating costs supporting the department's Antitrust Unit.

Department of Economic Security – Review of Long Term Care Capitation Rate Changes – The JLBC gave a favorable review of DES' proposed expenditure plan for the federal Title XIX Long Term Care (LTC) program as a result of an increase in capitation rates. The approved rate represents an average increase of 7.77% above FY 2003, compared to the budgeted rate increase of 5.0%. The General Fund cost of the increase is estimated to be \$3 million above the FY 2004 budget. Additionally, the Committee stipulated that its favorable review of the expenditure plan did not imply an endorsement of any potential supplemental request by the agency.

Department of Economic Security – Determine Arizona Works Caseload Reduction Savings – The JLBC gave a favorable review to JLBC Staff's calculation of cash benefit savings of \$53,300 attributable to caseload reductions achieved by the Arizona Works pilot welfare program for FY 2002. Current statute allows up to 25% of savings (\$13,325) can be used by the Arizona Works Agency Procurement Board to award incentives to the vendor for satisfactory performance on several criteria.

Because the Arizona Works pilot ended pursuant to statute on September 30, 2002, this is the final calculation of caseload reduction savings required by the Committee.

Department of Health Services – Review of Developmental Disabilities Capitation Rates – The JLBC gave a favorable review of DHS' proposed capitation rate increases to the agency's Developmental Disabilities (DD) Title XIX Behavioral Health Program. These rate increases will affect the Children's Behavioral Health (CBH) and Seriously Mentally Ill (SMI) Special Line Items. The approved rates will have a minimal cost compared to the current JLBC FY 2004 supplemental estimates, and no cost compared to the JLBC FY 2005 estimate for the behavioral health budget.

Department of Health Services – Review Expenditure from the Vital Records Electronic Systems Fund – The JLBC favorably reviewed DHS' \$1.4 million expenditure plan to automate functions related to birth and death certificates, using monies from the Vital Records Electronic Systems Fund. Ongoing annual costs to operate the new system starting in FY 2005 are estimated to be \$336,100, \$111,500 of which would be funded from the Vital Records Electronic Systems Fund. The favorable review stipulated that DHS return to the Committee for review of expenditures from the fund exceeding \$1.4 million in FY 2004 and \$111,500 in FY 2005.

Arizona Department of Education – Report on Estimated Fiscal Impact of Changes to Achievement Testing Program – The JLBC heard testimony from the Department of Education (ADE) on increases in achievement testing costs. A footnote in the General Appropriation Act requires ADE to report to the Committee on any changes to the Achievement Testing program that will increase program costs.

ADE reported that there have been 14 modifications to Arizona's Instrument to Measure Standards (AIMS) Test and that most of these changes were required by the federal No Child Left Behind Act. These changes are expected to increase state General Fund costs for Achievement Testing by about \$2.4 million in FY 2004 and \$4.2 million in FY 2005 above current budgeted levels.

This item was for information only, and no action was required by the Committee.